

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: Pepperdine University Malibu, California Los Angeles County</p> <p>Facility Type: Private University</p> <p>Accreditations: Western Association of Schools and Colleges and American Bar Association</p>	<p>Amount Requested: \$35,000,000</p> <p>Loan Term: 30 Years</p> <p>Date Requested: February 28, 2002</p> <p>Final Resolution Number: 196</p>																											
<p>Use of Bond Proceeds: Bond proceeds will be used to construct student dorms and a parking structure for the Drescher Graduate Campus located adjacent to the Malibu campus.</p>																												
<p>Type of Issue: Public offering, fixed rate</p> <p>Credit Enhancement: None</p> <p>Expected Rating: A1 (Moody's)</p> <p>Senior Underwriter: Prager, McCarthy & Sealy</p> <p>Bond Counsel: Arter & Hadden</p>																												
<p>Financial Overview: The University has shown steady operating margins in each of the last three years due to its growing revenue base of tuition and investments. The University has an extremely strong balance sheet with marginal debt and significant financial resources.</p>																												
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<p>Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$35,000,000 for Pepperdine University, subject to the bonds having at least an "A" rating by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" rated debt.</p>																												

STAFF SUMMARY AND RECOMMENDATION

Pepperdine University (the “University”)

February 28, 2002

Final Resolution Number: 196

PURPOSE OF FINANCING: This financing will enable Pepperdine University to continue development of its Drescher Graduate Campus (DGC) and provide much needed student housing and parking. The DGC is adjacent to the current Malibu campus.

The current Malibu campus has become overcrowded due to the expansion of graduate services. The University believes in the value of a residential campus experience. The construction of additional on-campus housing for students and parking will meet this specific goal.

Drescher Graduate Campus Dorms.....\$25,828,500

The DGC dorms will accommodate 324 beds and will relieve the overcrowding at the current Malibu campus providing more students the ability to live on campus. Construction is anticipated to begin June 2002 with completion anticipated to be Fall 2003.

Drescher Graduate Campus Parking 3,500,000

The parking structure will provide parking for the new student dorms that will also be built with this funding.

Capitalized Interest..... 2,547,831

Financing Costs 554,669

Underwriters Discount \$349,169

Cost of Issuance 205,500

Total.....\$32,431,000

Financing Structure:

- \$35,000,000 total par value
- General obligation pledge
- A1 Moody's Rating
- Fixed interest rate
- Negotiated public offering
- 30 year maturity

II. FINANCIAL STATEMENTS AND ANALYSIS:

Pepperdine University Statement of Unrestricted Activities (in 000's)

	For the year ended July 31,		
	2001	2000	1999
Revenues:			
Student revenues	\$ 155,869	\$ 150,851	\$ 145,547
Less: Financial aid	(38,556)	(37,227)	(36,365)
Net student revenues	117,313	113,624	109,182
Room and board	17,488	15,536	15,904
Private gifts and grants	7,095	6,320	9,265
Investment income	24,920	8,655	16,894
Net realized/unrealized gains	24,850	51,880	24,293
Sales and services	7,681	7,489	7,467
Other revenue	29,923	22,562	8,882
Total revenues	229,270	226,066	191,887
Expenses:			
Instruction and research	65,530	61,481	57,988
Academic support	21,538	21,446	18,540
Student service	21,890	20,671	19,757
Public service	3,182	2,596	2,687
Auxiliary enterprises	17,292	15,834	15,517
Management and general	38,992	31,942	31,538
Membership development	1,400	1,326	1,277
Fundraising	7,321	7,352	6,629
Total expenses	177,145	162,648	153,933
Excess of revenues over expenses	52,125	63,418	37,954
Other changes in unrestricted net assets	(4,287)	(2,051)	1,566
Total changes in unrestricted net assets	47,838	61,367	39,520
Unrestricted net assets beginning of year	483,769	422,402	382,882
Unrestricted net assets end of year	\$ 531,607	\$ 483,769	\$ 422,402

Pepperdine University
Statement of Financial Position
(in 000's)

	As of July 31,		
	2001	2000	1999
Assets:			
Cash	\$ 14,278	\$ 6,941	\$ 12,125
Student receivable, and student notes, net	30,659	30,595	28,878
Other accounts receivable	2,502	2,702	2,328
Contributions receivable	25,053	24,592	23,580
Prepaid expenses	3,082	2,652	1,914
Investments	555,860	519,955	438,739
Amounts held as trustee or agent	80,336	85,113	98,080
Interest in perpetual trust	17,677	17,559	18,197
Plant facilities	229,128	195,246	184,264
Total assets	\$ 958,575	\$ 885,355	\$ 808,105
Liabilities and net assets:			
Accounts payable and accrued liabilities	\$ 15,269	\$ 13,912	\$ 11,215
Accrued salaries and wages	3,727	3,381	3,109
Student deposits and deferred revenues	5,506	5,867	4,105
US government funded student loans	12,251	11,983	11,434
Actuarial and other liabilities due under trust and agency agreements	54,270	55,859	58,822
CEFA obligations payable	146,769	110,904	114,905
Notes payable	8,898	9,792	10,450
Total liabilities	246,690	211,698	214,040
Net assets:			
Unrestricted	531,607	483,769	422,402
Temporarily restricted	62,107	76,742	65,464
Permanently restricted	118,171	113,146	106,199
Total net assets	711,885	673,657	594,065
Total liabilities and net assets	\$ 958,575	\$ 885,355	\$ 808,105

Financial Ratios:

	Proforma (a)			
	YE July 31, 2001	2001	2000	1999
Debt Service Coverage (x)	4.77	5.7	7.32	3.68
Debt to expendable net assets (x)	0.30	0.24	0.18	0.31
Expendable Net Assets to Operations (x)		3.86	3.45	3.17
Operating Margin (%)		32%	27%	20%

(a) Recalculates July 2001 audited results to include the impact of this financing

Financial Discussion:

The University has shown steady operating margins in each of the last three years due to its growing revenue base of tuition and investments.

The University has exhibited solid revenue growth over the review period. Revenues mainly consist of tuition and investment income providing the University with liquidity and flexibility. Tuition rates have increased 7% during the review period due to the strong demand for the University's programs. The University expects the new Drescher Graduate Campus to provide continued tuition revenue increases. The University also posted strong investment revenues during the 2001 fiscal year. Overall the University's revenues have increased 19% over the review period while expenses have increased 15%. The growth in expenses was due to technology and salary increases.

The University has an extremely strong balance sheet with marginal debt and significant financial resources.

The University's current financial strength is sound. It maintains over \$700 million in total net assets, with the majority of these assets (\$531 million) being unrestricted. In fiscal 2001, its debt service coverage ratio was a strong 5.7x. With this proposed financing the debt service coverage ratio will still remain strong at 4.77x.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

Applications and Admissions

The following tables sets forth applications, offers of admissions and acceptances for the University's undergraduate and graduate programs for the academic years shown.

Freshman and Transfer

Academic Year	Number of Apps	Accepted	Selectivity Ratio	New Enrollments
1997-98	5,037	2,828	56.1%	1,036
1998-99	5,647	2,873	50.8%	997
1999-00	5,957	2,235	37.5%	848
2000-01	6,143	2,343	38.1%	938
2001-02	6,147	1,961	32.9%	636

Graduate Programs

Academic Year	Number of Apps	Accepted	Selectivity Ratio	New Enrollments
1997-98	6,471	3,940	60.9%	2,091
1998-99	6,255	3,806	60.8%	1,971
1999-00	5,932	3,544	59.7%	1,949
2000-01	6,017	3,610	59.9%	1,845
2001-02	N/A	N/A	N/A	N/A

Enrollments

Enrollment levels for both the undergraduate and graduate programs at Pepperdine University have remained steady over the five years presented.

ENROLLMENTS

Fall Term	Undergraduate	Graduate	Total	Total FTE
1997-98	3,175	4,433	7,608	6,506
1998-99	3,256	4,447	7,703	6,649
1999-00	3,213	4,611	7,824	6,858
2000-01	3,240	4,468	7,708	6,726
2001-02	3,126	4,511	7,637	6,823

Degrees

The number of degrees awarded in total has remained steady.

DEGREES

Academic Year	Bachelor	Graduate	Total
1997-98	799	1,570	2,369
1998-99	755	1,673	2,428
1999-00	921	1,669	2,590
2000-01	896	1,811	2,707
2001-02	N/A	N/A	N/A

Tuition and Fees

Total undergraduate tuition, fees, room and board increased an average of just under 5% a year.

UNDERGRADUATE TUITION, FEES, ROOM AND BOARD

Academic Year	Tuition and Fees	Room and Board	Total
1997-98	\$21,170	\$6,980	\$28,150
1998-99	22,120	6,840	28,960
1999-00	23,070	7,010	30,080
2000-01	24,050	7,290	31,340
2001-02	25,250	7,580	32,830

Faculty

The following table reflects the number of full-time and other faculty for the five academic years indicated as of the fall term for each year, along with the number of full-time instructional faculty with tenure.

FACULTY SUMMARY

Academic Year	Full-Time Faculty	Other Faculty	Total Headcount	Number Tenured
1997-98	240	417	657	185
1998-99	251	415	666	187
1999-00	256	413	669	198
2000-01	274	400	674	186
2001-02	276	404	680	186

IV. BACKGROUND:

General: Pepperdine University is an independent, non-profit, privately endowed, co-educational university that enrolled 7,637 students during the Fall Term 2001 and approximately 7,420 students during Spring Term 2002 in one undergraduate liberal arts college with a small graduate program and four professional/graduate schools. Seaver College, the School of Law and the School of Public Policy are located on the University's 830-acre campus overlooking the Pacific Ocean in Malibu, California. The Graduate School of Education and Psychology and the George L. Graziadio School of Business and Management are presently based at the Pepperdine University Plaza Center (the Plaza Center) in Los Angeles, but will be relocated to the University's Malibu campus once the development of the Drescher Graduate Campus has been completed. Graduate courses are currently taught at the Plaza center and at four other educational centers in Southern California, as well as the Malibu campus. The University also offers educational programs in facilities it owns in Heidelberg, Germany; London, England; Florence, Italy, and Buenos Aires, Argentina.

Mr. George Pepperdine founded the George Pepperdine College in Los Angeles in 1937. University status was achieved in 1970 when the institution added graduate and professional schools. The University opened its current campus in Malibu in 1972.

Religious Certification: Pepperdine University is an independent University affiliated with the Church of Christ. It has provided both a certification of compliance with the provisions of the CEFA Act relating to religion, and a more comprehensive certification detailing compliance with the specific standards as required by the Authority.

Administration: The University is governed by a self-perpetuating Board of Regents composed of 40 voting members. There are currently three vacancies in the voting membership. The Bylaws require that a majority of the actual number of Regents, a majority of the Executive Committee, the President and the Chairman of the Board of Regents shall be members of the Churches of Christ. All members of the Board are elected for three-year terms. Approximately one-third of the membership is elected annually.

The Board of Regents annually elects a Chairman, one or more Vice Chairmen, a Secretary, and an Assistant Secretary, each for terms of one year. In addition to an Executive Committee which acts for the Board between meetings, there are seven standing committees, including a Committee on Finance and Investments. The full Board meets four times each year.

Accreditations: The University is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (“WASC”), the primary accrediting body for institutions of higher education in the Western United States. The last WASC accreditation was in 2000 and resulted in a reaffirmation of the University’s accreditation. The next WASC visit is scheduled for Fall 2011. Although the University’s WASC accreditation applies to all programs at the University, certain programs have received appropriate additional specialized accreditation. In addition, the School of Law is accredited by the American Bar Association (ABA) and holds membership in the Association of American Law Schools (AALS). The next ABA/AALS site inspection for the School of Law is scheduled for the academic year 2002-03.

Academic Programs: *Seaver College* is the University’s college of letters, arts, and sciences offering an interdisciplinary curriculum that provides students with a broad and comprehensive education. With its academic program organized into eight major divisions, Seaver College offers the baccalaureate degree in over 36 fields of study, and the master’s degree in eight fields of study. Seaver College also offers full-time international programs in Germany, England, Italy, and Argentina.

The School of Law offers a full range of courses dealing with federal, state, and international law, leading to the Juris Doctor degree. The school offers the Juris Doctor/Master of Business Administration (“JD/MBA”) degree as a joint four-year program with the George L. Graziadio School of Business and Management. The school also offers a Masters in Dispute Resolution through a joint program with the University’s Institute for Dispute Resolution.

The George L. Graziadio School of Business and Management focuses on the development of managers for business, government, and education, and offers graduate and undergraduate degree programs for full-time students and working adults.

The Graduate School of Education and Psychology offers masters and doctoral degrees in nine fields of study as well as instruction in initial teacher preparation, certain credential programs, and academic preparation for the Marriage, Family and Child Counseling license.

The School of Public Policy offers the masters degree for students who seek careers in business, the not for-profit sector, or government.

Competition: Pepperdine University faces competition from the nearby colleges of University of Southern California, University of California at Los Angeles, and Pomona College.

V. OUTSTANDING DEBT:

Issue Name:	Original Amount	Amount Outstanding As of 7/31/01	Estimated Amount Outstanding after Proposed Financing
Existing			
CEFA Pool, Series 1993 A	\$25,550,000	\$24,290,000	\$24,290,000
Pepperdine University, Series 1994	10,010,000	7,595,000	7,595,000
CEFA Pool, Series 1995 A	20,940,000	18,020,000	18,020,000
Pepperdine University, Series 1997	16,000,000	7,895,000	7,895,000
Pepperdine University, Series 1999 A	30,000,000	28,515,000	28,515,000
Pepperdine University, Series 1999 B	20,000,000	20,000,000	20,000,000
Pepperdine University, Series 2000	40,000,000	40,000,000	40,000,000
Proposed			
Pepperdine University Series 2002A	35,000,000	N/A	35,000,000
Totals		<u>\$146,315,000</u>	<u>\$181,315,000</u>

VI. LEGAL REVIEW: Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION: Staff recommends the Authority approve a resolution in an amount not to exceed \$35,000,000 for Pepperdine University, subject to the bonds having at least an “A” rating by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.